

would merely prolong the inevitable and leave the customer deeper in debt and less able to get back on the network.

Third, telephone company net bad debt would increase dramatically. We understand that the percentage of bad debt has multiplied in states that have implemented this prohibition. This raises prices for all subscribers, potentially decreasing subscribership levels. Based on discussions with IXCs and other carriers, we conservatively estimate a \$75 million increase in IXC net bad debt associated with Pacific Bell's billing services. Magnified across the nation, this would be a huge increase in bad debt.

Fourth, the increased bad debt may discourage the continuation of LEC billing services for IXCs. These billing services meet customer needs. End users continually have indicated that they prefer a single bill. Thus, the suggested prohibition could frustrate continued fulfillment of the desires of the very people that the Commission is trying to help.

Fifth, the costs to change our billing systems and operations in order to implement this prohibition would be substantial and would reduce our efficiency. Our billing systems and operations do not currently distinguish between types of traffic in ways that would allow this prohibition. We cannot accurately predict our expenses because we do not know what the specific requirements related to this prohibition would be. For instance, when we receive a partial payment from a customer, we are not sure to what services the partial payment would be allocated in order to determine whether the partial nonpayment applied to local service, intrastate toll, or interstate toll. As a result, if the Commission decides to propose this prohibition (contrary to our

recommendation), it should give parties notice of the specific details of its proposal so that we and other parties may consider and comment on it.

Upgrading our billing and collection systems would cost millions of dollars. In addition, based on Bell of Pennsylvania's experience, we expect that there would be substantially increased customer contact time needed to explain and implement the prohibition. We conservatively estimate an increase of our costs of over \$22 million annually for 450 additional collection representatives. This increased customer contact time could place us at a competitive disadvantage vis-a-vis our competitors who might not face these requirements.

Sixth, the prohibition would frustrate the Commission's intent that we continue to be able to disconnect interstate service for nonpayment of interstate charges,²⁷ and intentional nonpayment and fraud would increase. In the past, when the Commission deferred to the states concerning disconnection for nonpayment, the Commission found that "disconnection of interstate service without simultaneously disconnecting local service is infeasible in most instances."²⁸ In certain important ways, this is still true. If we disconnect interstate service but leave local service connected, we will in effect be limited to toll restriction and blocking services. We will not have the fall-back option of disconnection, as a last resort for dealing with

²⁷ Id. at paras. 29, 31.

²⁸ The Public Service Commission of Maryland and Maryland People's Counsel Applications for Review of a Memorandum Opinion and Order By the Chief, Common Carrier Bureau Denying The Public Service Commission of Maryland Petition for Declaratory Ruling Regarding Billing and Collection Services, FCC 89-120, Memorandum Opinion and Order, 4 FCC Rcd 4000, para. 47 (1989), citing the Detariffing Order, 102 FCC 2d at 1166-1167, para. 28.

customers. We can technologically block direct-dialed originating interstate calls, but we cannot use technology to selectively block interstate terminating calls that may be charged to the terminating customer, including collect calls and interstate bill-to-third number calls. We also cannot use technology to selectively block calls to 800 information calling services or to selectively block access to the IXC 800 call completion platform. We could attempt to rely on operators to check Line Identification Database ("LIDB") systems to block these calls, but IXCs do not validate all calls through LIDB, permitting calls to get through that may never be paid for. The large number of IXCs that customers can access and transfer among would increase the opportunities for intentional nonpayment and fraudulent use of the telephone networks.²⁹ Again, this would increase costs for all subscribers and ultimately could reduce subscribership.

B. The Commission Lacks The Authority To Prohibit Disconnection Of Local Service For Nonpayment Of Interstate Service In The Manner Suggested³⁰

Prohibiting common carriers from interrupting or disconnecting a telephone subscriber's primary local exchange service for failure to pay interstate long-distance charges, as suggested by the Commission,³¹ would exceed the Commission's authority. The Commission's authority is limited to interstate service, and

²⁹ Telecommunications Advisors, Inc. forecasted 1995 toll fraud losses at \$5 billion to \$8 billion. "Telecom & Network Security Review," April 1995. Prohibiting denial of local service for nonpayment of interstate long distance charges would greatly exacerbate this already substantial industry problem.

³⁰ The Commission requests comments on its legal authority at NPRM para. 53.

³¹ NPRM, para. 31

the Communications Act expressly reserves authority over intrastate service to the states.³²

The Commission is correct that basic telephone service, including dialtone capability, has both interstate and intrastate components. The Commission's authority, however, is limited to the interstate components. The Commission would be regulating the intrastate components, not the interstate components, if it prohibited disconnection of intrastate service for nonpayment of interstate charges in the manner suggested. The Commission does not intend to adopt regulations concerning the interstate components since it "would not prohibit carriers from interrupting interstate long-distance service for nonpayment of interstate long-distance charges."³³ This decision concerning interstate service is as far as the Commission can go in this area. Once the Commission's interstate interest is satisfied, it has no basis to regulate further and preempt the states' authority over local service disconnection. This is not a case of a LEC disconnecting local service without having the right to disconnect interstate service. Moreover, as discussed above in Section A, the only effective way to fully interrupt interstate long-distance service for customers who are unwilling to have it interrupted (e.g., acceptance of interstate collect calls and acceptance of bill-to-third number calls) is to disconnect all service.

In addition, the Commission's authority over interstate billing does not provide the Commission with authority concerning the disconnection of local service. Interstate billing is "incidental" to interstate service, not to local service. Moreover, the

³² 47 U.S.C. § 152(b)

³³ NPRM, para. 3¹

Commission's Title I authority to carry out the Communications Act's universal service objective does not provide the Commission with any independent authority not provided by other Titles of the Act.³⁴

The suggested prohibition also would be an unnecessary infringement of state authority and arbitrary and capricious because it is an overbroad means for the Commission to attempt to carry out its express goal "[t]o keep low-income subscribers from being disconnected from local service...."³⁵ Even if it were limited to residential customers, the disconnection prohibition would pertain to all residential subscribers, not just low-income subscribers and would include anyone who chose not to pay for whatever reason, including fraud. Voluntary toll restriction services, which the Commission recognizes are an alternative to the disconnection prohibition,³⁶ can be tariffed at the state level to help those customers that the Commission is concerned about. This approach avoids the jurisdictional conflict and avoids helping those who do not need assistance and who are unwilling to pay for service.

³⁴ "Title I is not an independent source of regulatory authority; rather it confers on the FCC only such power as is ancillary to the Commission's specific statutory responsibilities." California v. FCC, 905 F.2d 1217, 1241 n.35 (9th Cir. 1990).

³⁵ NPRM, para. 7

³⁶ Id.

III. **WE HAVE DEVELOPED NEW SERVICES FOR INCREASING SUBSCRIBERSHIP LEVELS; SERVICES SHOULD NOT BE MANDATED**³⁷

A. **Disconnection Related To Failure To Pay Interstate Long-Distance Charges**

1. **Call Control Services**

Rather than prohibiting disconnection of local service for failure to pay interstate charges, the Commission should allow LECs to continue to develop innovative services that help customers control their usage of telephone service and avoid getting into a situation where disconnection is required. The LECs and state commissions need the flexibility to deal with the particular problems in their states, and a federal mandate would be counterproductive.

a. **Voluntary Long-Distance Blocking Services**

Consistent with the results of the California Affordability Study, Pacific Bell has developed two options for blocking long-distance services, Toll Restriction and Toll Blocking, which are designed to address the needs of residential and small business customers.³⁸ We have completed a market trial for these services and have filed an Advice Letter at the California P.U.C. asking for approval to offer them.

We will offer Toll Restriction at no charge, in order to assist customers who are struggling to meet their payment obligations. The use of Toll Restriction is

³⁷ The Commission requests comments on these types of services at NPRM paras. 10-41.

³⁸ Nevada Bell currently offers Call Restriction to customers under the same terms as Pacific Bell's Call Blocking.

applicable for 1) existing customers who are in jeopardy of having their service temporarily disconnected, 2) customers who already have been temporarily disconnected and wish to restore service, and 3) customers who have been disconnected, owe a final bill, and want to re-establish service.

As a general principle, Toll Restriction provides relief in two areas:

- It allows the customer an extended period of time to pay off outstanding charges (up to six months)
- It serves as a form of security, which can be used in lieu of a deposit³⁹

Since Toll Restriction has several technological limitations which prevent us from totally blocking all billable calls, customers need to qualify for this service as a collection tool. An announcement is activated when a billable call is dialed from a Toll Restricted line which advises the caller, "We're sorry, the number you are calling cannot be completed from this telephone, at the customer's request."

We allow customers up to 6 months to pay off their delinquent charges, as well as all current charges. Toll Restriction serves as security on the account, in lieu of a deposit. Therefore, in order for the customer to avoid paying a deposit, the service must remain on Toll Restriction for six months, even if the customer satisfies his or her debt earlier.³⁹ After customers satisfy their financial obligations and the 6 months have expired, we will provide the option of restoring to full service or retaining limited service

³⁹ The customer can obtain full network access at any time by paying 1) all outstanding charges, and 2) a deposit equal to twice the customer's average bill for the past three months (on the customer's full service account), which we hold for one year and on which we pay 7 percent simple interest.

by purchasing Toll Blocking. A prepaid calling card could enable toll calls to be made while either Toll Restriction or Toll Blocking is in place.

Toll Blocking will be available as a product for those customers who want to exercise greater control over their telephone service, but are not delinquent in meeting our payment requirements. Toll Blocking is proposed to be tariffed at \$2 per month, with no installation or non-recurring fees.⁴⁰

b. Other Long-Distance Restriction Services

Pacific Bell currently provides additional services that restrict long distance and other services. We provide Quick Dial Tone ("Warm Line") and Limited Disconnect services at no charge.

Quick Dial Tone provides residential customers a set of basic calling capabilities prior to a formal service request from the customer. Outgoing calls are allowed only to 611 (repair), 9-1-1 (emergency), and 800 numbers to our business offices. Other than emergency services, incoming calls are restricted until telephone service has been established.

Limited Disconnect allows residential and small business customers who have been temporarily disconnected for nonpayment to access 611 (repair), 9-1-1 (emergency), and 800 numbers to our business offices. Access to other outgoing calls is restricted, and no incoming calls are allowed. Service generally remains in this status

⁴⁰ Toll Blocking provides the customer with more options than Toll Restriction; i.e., the ability to retain a LEC calling card, to accept collect calls, or to accept bill-to-third number calls.

for seven days, after which it is either restored when the customer satisfies the payment obligation, or disconnected and the account is closed out.

Pacific Bell and Nevada Bell also provide Billed Number Screening ("BNS"), which is somewhat effective in blocking collect calls and/or calls billed to a third-party number. BNS is voluntary we suggest it to customers who appear to be experiencing problems with these types of calls. The problems may be related to our customers' inability to pay or to third-party fraud. BNS screens both collect and bill-to-third number calls at two computerized levels. Depending on where calls originate, however, they may bypass both screening levels. The customers are responsible to pay for collect calls they accept, and if they are charged for a bill-to-third number call we will investigate it in the normal manner

We also provide Information Call Services Blocking ("ICSB"). This service allows Pacific Bell and Nevada Bell customers to block directly-dialed calls from their telephones to the following

- All California and Nevada 976 numbers within California and Nevada
- All Pacific Bell and Nevada Bell California and Nevada 900 numbers
- All Interexchange Carrier 900 numbers

ICSB provides another opportunity for customers to control their costs. States developed this service first and the Commission adopted the same rules for the interstate jurisdiction

In addition to offering these services and screens that directly block or restrict service, we believe that limiting customers' credit for toll services and providing

customers with early warnings if their toll service is unusually high helps some customers control their usage and remain subscribers. These warnings also help avoid customer confusion. They help make it clear to customers that our bills need to be paid in full, unlike credit card bills where partial payments are accepted with interest charged on the balance.

In July, Pacific Bell filed tariff revisions with the California P.U.C. that will allow earlier notification to customers with unusually high toll levels, together with requests for payment within seven days. The dollar amounts of toll service which may trigger these special notifications and bills depend on how the customer's account is classified as to credit (above average risk, average risk, below average risk, or unknown).

Pacific Bell also is investigating potential spending limit products which may allow customers to preset and modify the amount of money they can spend on toll calls. These products, however, would require further development of AIN or other technologies, and we cannot predict at this time the costs or potential timing for these products. We need the flexibility to continue to explore these and other types of service offerings.

2. Assistance With Connection Charges And Deposits

We described above the substantial assistance with connection charges and deposits that we provide in association with Toll Restriction Service. In addition,

under California's Universal Lifeline Telephone Service ("ULTS"),⁴¹ lower-income customers are charged a \$10.00 connection fee, rather than the normal \$34.75 connection fee. This is a once a year allowance. Moreover, customers without payment problems can spread their connection charges over three installment payments.

No federal programs should be mandated concerning connection charges and deposits. The Commission should support, however, the broadening of Link Up funding to cover an unlimited number of interconnections per year. Moreover, state lifeline programs, such as that in California, that do not require verification of customers' eligibility should qualify for Link Up interconnection support without additional requirements and limitations.⁴² The California program has been very successful. It ensures broad coverage of those in need, while avoiding substantial administrative costs of verifying customers' incomes.

⁴¹ Nevada Bell offers Universal Lifeline Telephone Service, which discounts installation and basic monthly rates and reduces the end user subscriber line charge.

⁴² The Commission's rules currently contain income verification requirements for lifeline connection assistance unless additional requirements are met, including that a residential subscriber "must have lived at an address where there has been no telephone service for at least three months immediately prior to the date that the assistance...is requested from the telephone company...." 47 C.F.R. § 36.711(c)(1). This additional non-income eligibility requirement is incompatible with the successful California ULTS program, and thus the income verification requirement prevents California from being eligible for Link Up.

3. Lifeline Assistance

Lifeline assistance is properly targeted where it is most needed -- to support lower-income residential customers. As discussed above concerning installation fees, we believe that verification of customers' incomes should not be required in order to be eligible for assistance.

We do not believe that at this time lifeline assistance should be expanded to additional types of customers, including schools and libraries. If lifeline is expanded to include them, however, federal funding must be provided to cover the expense.

We believe that other programs can better deal with the needs of schools and libraries. For instance, Pacific Bell is offering an Education First Program, which wires schools and libraries free for one year with lines to ensure connectivity to the public switched network.

Inclusion of schools and libraries in the federal lifeline program would raise a number of issues. For instance, will both public and private schools and libraries be included? Will the program be limited to K-12 or also include colleges? Will this assistance include a phone line in every classroom? Will the assistance also include the additional expense associated with maintaining phone lines? Who is responsible for the CPE needed for receiving service? Are there additional community organizations that should be included in this type of offering? We believe that these and other issues can be better addressed by carriers working with state authorities which can assess local needs.

B. Services Targeted For Low-Income Populations That Are Highly Mobile

As the Commission points out, and the California Affordability Study confirms, impermanent living situations of highly mobile customers correlate with non-subscribership.⁴³ Installation charges are one barrier to subscribership by highly mobile customers, and in California we have taken steps to reduce and spread out these charges, as described above in Section A. For many of these customers, allowing discounted installation charges more than once a year would be very helpful. Therefore, we recommend that Link Up assistance be expanded to support unlimited installations per year.

Also of help to these customers are improved customer credit processes, payment arrangements, and the Quick Dial Tone Service described above. In addition, we believe that use of voice mail boxes, prepaid long-distance cards, and paging services may help keep those with non-permanent living arrangements connected to the public switched telephone network when typical basic service connections are impractical or unaffordable.

1. Voice Mail

Pacific Bell has been very active in the use of voice mail boxes to help mobile customers obtain connectivity to telephone service. We have a Community Service Voice Mail Program which is designed for use by non-profit organizations. The

⁴³ NPRM, para. 37

organization purchases blocks of ten voice mailboxes at discount rates for a year at a time. Each mailbox is assigned its own telephone number and password. The organization distributes the mailbox numbers to residents using materials that we provide. Residents using the mailboxes record their own personal greeting and password and give the telephone number to people trying to reach them. These people may include potential employers, landlords, counselors, family members, and others. Residents can then use any touchtone pay phone or private phone to check their messages at their convenience.

The organization that secures the blocks of ten mailboxes must obtain funding for this service, through grants or through its own internal funding sources. The organization also needs to designate someone internally to manage the service. The manager trains the residents, allocates mailboxes, changes passwords, and acts as a contact for our enhanced service operation. We provide all training material for the organization's use and train its manager on the effective use of voice mail.

Prior to beginning our current program, for which we are receiving about a half-dozen requests per year, from October 1992 to October 1993 we conducted a one-year trial of community voice mail service. Two organizations participated:

- The Salvation Army Gateway Center, San Francisco. Program emphasis was on long-term transitional housing and assistance for homeless families with children. Voice mail was used to connect clients to potential employers, schools, doctors, and social service agencies.
- The Weingart Center, Los Angeles. This was a Community Telephone Program site and one of the largest programs in the nation. Program emphasis was short-term to long-term housing and assistance for adult homeless individuals. Full in-house social

services were coordinated with county-run programs. Voice mail was used in programs for individuals seeking permanent employment and for HIV-positive clients connecting to health and social service agencies.

Both organizations experienced good results with the voice mail trial. In general, beyond teaching the basic technology to staff and clients, agencies were able to develop creative uses of voice mail that increased the self-esteem of participating clients and encouraged self-accountability for breaking the cycle of homelessness. Participants were able to determine appropriate uses of the technology based on their own needs.

One of our most successful ongoing voice mail projects involves migrant farm workers in California's Central Valley and is sponsored by La Coopertiva Campesina of Sacramento ⁴⁴ They have used this service for two years and have continuously expanded it because of the improvement it provides in the farm workers' ability to communicate with their employers and families. For this project, mail boxes are accessed through a single 800 number.

⁴⁴ During the 1993 agricultural season, La Coopertiva Campesina de California joined with Pacific Bell and the California Department of Economic Opportunity to provide voice mail services to a select group of migrant and seasonal farm workers in the state's Central Valley. These sponsoring agencies were joined by the Department of Housing and Community Development and the Housing Authorities of Kern and Monterey counties to provide voice mail through the Arvin and King City Migrant Camps. For our participation in this project, in October of 1994 the Western Alliance of Farmworker Advocates ("WAFA") awarded Pacific Bell WAFA's 1994 "Quality of Life" award.

2. Prepaid Debit Cards

Because voice mail boxes must be accessed through the telephone network, prepaid debit cards could be of assistance to mobile customers. These cards also may be of help in increasing connectivity in other ways. For instance, a debit card used with public payphone service might potentially provide connectivity to customers who subscribe solely to paging service.

3. Paging Services

Pacific Bell's paging service costs \$8.95 per month for air time covering one-half of California. Pagers normally list for about \$50 to \$90 retail, but may be purchased for under \$30.00. These pagers have a numeric read out which can supply the return phone number or can be used for agreed upon codes (e.g., 1-0-8 could mean "come to work tomorrow at 8 a.m."). If the mobile customer needs to call the paging party, a payphone and debit card could be used.

Most paging companies, including Pacific Bell Paging, have voice mail technology integrated into the paging service so that the same telephone number that serves the pager can serve a voice mail box. The calling party can have a choice of using the touchtone pad to leave a call-back number or other numeric message or of leaving a voice mail message. The mobile customer can then access the voice mail message via a payphone without having wireline service.

Unfortunately, we do not know if pagers, with or without voice mail, are currently being used in this manner as a replacement for other service. The Census

Bureau could help find out by asking people who indicate that they do not have residential phone service whether or not they subscribe to paging and/or voice mail service.⁴⁵

The marketplace is making voice mail and paging services more widely available. With continued rapid deployment, these types of services will offer new opportunities for non-wireline customers to have access to the telephone network.

C. Extending Telephone Service To Unserved Areas

1. BETRS

Pacific Bell and Nevada Bell have found Basic Exchange Telecommunications Radio Service ("BETRS") to be of assistance in extending service to previously unserved rural areas. BETRS is a wireless local loop service, which is also known as "radio POTS" or "last mile by radio."

⁴⁵ The use of two-way paging service has been getting a lot of recent attention. See, e.g., "Lowly Beeper May finally Get Respect As Two-Way Paging Services Emerge," Gautam Naik, The Wall Street Journal, September 19, 1995, B1. We believe that two-way service probably will be too expensive to be of help to lower-income mobile customers in the near term. It is important to ascertain whether or not reported monthly rates include only access or also usage, and if the latter how much usage. PCS and cellular services are premium services that are unlikely to be of help to lower-income customers in the foreseeable future.

Nevada Bell has deployed two different BETRS radio systems, SRT Telcom and Alcatel.⁴⁶ SRT Telcom radios operate in the 2.5 GHz range. Nevada Bell obtained a waiver to be able to utilize this range because Nevada Bell does not have instructional television which operates in the same range. The SRT system provides the most reliable service to Nevada Bell's customers using BETRS service, but the Commission is not allowing any additional waivers in this range at this time.

Alcatel radios operate in the 450 MHz range. Nevada Bell has experienced many problems with this system, which result in numerous customer complaints due to down time and the lack of clarity of the service. Moreover, at this time, these radios are not being manufactured.

Providing BETRS in Nevada is expensive. For instance, providing it to 43 customers in Austin, Nevada has cost \$1,451,790, or \$33,762 per customer. Providing it to 49 customers in Cherry Creek, Nevada has cost \$423,598, or \$8,644 per customer. Differences in the costs in different areas are caused by differences in distances and terrains.

Pacific Bell uses Alcatel radios for BETRS in the following areas: Boulder Creek (near Santa Cruz, California); in the Feather River Area (near the town of Belden, California); at Forest Ranch (near Chico, California); and at Hallelujah Junction

⁴⁶ Both SRT Telcom and Alcatel are manufacturers of BETRS radios. Beginning with proceedings in 1987 and continuing in two subsequent proceedings, Nevada Bell faced an intrastate overearnings situation and petitioned the Public Service Commission of Nevada ("PSCN") to use the overearnings for rural improvements. The PSCN agreed to our plans to replace open wire and install BETRS, replace mechanical switches with digital equipment, and develop special rate areas to bring remote customers into the exchange. These are ongoing projects.

(Northwest of Reno, but in California). BETRS is the only means of phone service for the service station and restaurant at Hallelujah Junction, and one of the BETRS lines at that location is the single busiest California Lottery phone line in the State of California. Pacific Bell uses North American Telephone manufactured radios for BETRS in Briceburg (near Yosemite National Park) and Optaphones, manufactured by Carlson Communications, in Miranda (South of Eureka, California) and in Wawona (in Yosemite)

Pacific Bell's experience with BETRS has been more positive than that of Nevada Bell, probably because the distances to rural customers tend to be less vast in California than in Nevada, and achieving line-of-sight microwave communications is more feasible in California. Easier access to BETRS would be helpful. Originally BETRS was limited to the 800 MHz range. That range is virtually unusable in heavily populated states like California. Therefore, the Commission allows BETRS to use the 450 MHz range. BETRS must share that range, however, with paging.⁴⁷ Paging is high power because it must penetrate concrete buildings. Thus, paging services create strong interference and can make BETRS unavailable for hundreds of miles. BETRS is low-power service, which works well only if it is line-of-sight and which creates little interference, allowing lots of BETRS potentially to share the same frequency. Therefore, in order to improve the ability to bring service to currently unserved areas, it would be helpful if BETRS had its own frequency block.

⁴⁷ BETRS also shares 450 MHz with IMTS, but IMTS largely has been displaced by cellular.

2. Subscriber Loop Carrier Systems

Nevada Bell plans to continue to provide service using the BETRS systems that are now in place. As these areas become more densely populated, however, Nevada Bell intends to serve the areas with Subscriber Loop Carrier systems, which have proven to be a more reliable and cost-effective method of providing service to rural areas in Nevada. Currently, Nevada Bell is deploying Subscriber Loop Carrier systems that allow reliable service to rural areas that have twenty-four or more customers. Although Pacific Bell finds BETRS helpful for serving rural areas in California and intends to continue to deploy it, Pacific Bell also uses Subscriber Loop Carrier systems. Pacific Bell is using this system, for example, at Rainbow Ridge (South of Eureka, California) for service to the FAA.

Unlike BETRS, Subscriber Loop Carrier systems are not used for local loop service itself; they do not employ radio directly to the customer. Subscriber Loop Carrier systems are used for "loop extensions;" they use radio in the place of feeder cable internal to the carrier's network. Thus, Subscriber Loop Carrier is a choice of facility by the carrier which is transparent to the customer. These systems are useful for instance in covering vast distances of unpopulated areas where wire or fiber cables would be too expensive, or for crossing government land such as parks where cable could harm the environment, or for reaching clusters of people in mountainous terrain where using wire or fiber cables would be prohibitively expensive.

3. Third-Party Fixed Cellular

In the third quarter of 1995, Nevada Bell chose to utilize "Fixed Cellular" as a means to provide telephone service to Antelope and Reese Valley, an extremely remote and sparsely populated ranching community. This service has enabled approximately 25 customers to be added to the network. Nevada Bell chose this relatively new means of communication in place of traditional wireline service because the distances between ranches is vast. Nevada Bell charges normal basic exchange rates and pays the cellular provider retail rates. Nevada Bell's annual subsidy is estimated to be approximately \$100,000, making this an impractical approach for widespread use unless universal service funding is provided.⁴⁸

Pacific Bell's involvement with fixed cellular service has been limited to helping some rural customers (e.g., a High Sierra camp) decide to switch from Pacific Bell's former Improved Mobile Telephone Service ("IMTS") to third-party cellular companies' fixed cellular services. The two-way mobile IMTS largely was displaced by cellular service, and Pacific Bell withdrew its IMTS tariff, on condition that arrangements were made for other service.

⁴⁸ The cost for providing the fixed cellular service in Antelope and Reese Valley is projected at \$80,000 to set-up, plus an ongoing subsidy which is projected at \$100,000 annually. The subsidy includes the difference between the cellular company's basic rate and Nevada Bell's basic rate, plus assumed air time.

4. Third-Party Mobile Satellite Service

Mobile satellite service may help bring two-way communication to unserved rural areas. We understand that American Mobile Satellite Corporation launched a data service for the trucking industry earlier this year and will soon introduce two-way voice service throughout North America. We also understand that the new service probably will be reasonably priced compared to other services, but probably will not be affordable to lower-income customers. We understand that the CPE may be priced at approximately \$2,500 and that the service may be priced at about \$25 per month, plus about \$1.00 per minute of use.

Competition is unlikely to bring low-priced telephone service to customers in unserved rural areas so long as prices in served rural areas continue to be subsidized through geographic rate averaging. If prices were close to cost in rural areas, with targeted assistance for lower-income customers, new competitors with new technologies might compete with wireline service in those areas.⁴⁹ Once new technologies have been built out to rural areas that currently have telephone service, building out those technologies somewhat further, in order to include unserved areas, might be economically feasible. Competition might then drive prices downward. In the

⁴⁹ With regard to any attempt to compare prices for mobile wireless services, such as PCS, to prices for wireline services, it should be recognized that, in addition to being capital intensive and thus costly to establish, these wireless services provide beneficial functionality that wireline services do not, namely mobility. This benefit has unique expenses associated with it and makes any projected price comparisons between mobile wireless and wireline services less meaningful.

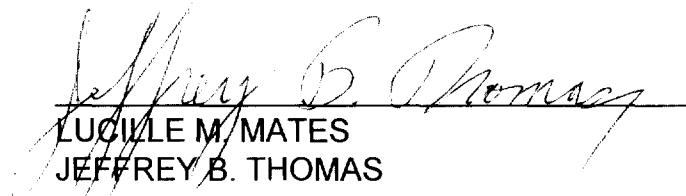
mean time, any requirements or incentives to provide service in these areas would need government funding, with reimbursement of LEC costs above those that could be recovered from the customers.

IV. CONCLUSION

For all the above reasons, the Commission should allow LECs to continue to develop solutions for increasing telephone subscribership and to continue to work with state commissions on this goal. Additional federal support in ways discussed above would be helpful, but mandates are not needed and would reduce the flexibility needed to develop solutions that address local problems. The best solutions aim at the root cause of subscribership problems by helping customers to control their calls. These solutions prevent the problems up-front, rather than trying to cure them later by passing the burden onto the LECs and the general ratepayers.

Respectfully submitted,

PACIFIC BELL
NEVADA BELL



LUCILLE M. MATES
JEFFREY B. THOMAS

140 New Montgomery Street, Rm. 1522A
San Francisco, California 94105
(415) 542-7661

JAMES L. WURTZ
MARGARET E. GARBER

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Their Attorneys

Date: September 27, 1995
9119802.01